

MEMORANDUM FOR: THE DIRECTOR

Attached is a paper pointing out discrepancies between allegations by Drew Pearson in his columns and the facts as shown by the record. Pages are not given for testimony before the Senate Armed Services Committee last Thursday as the printed transcript is not yet available.

S/ Lawrence R. Houston
LAWRENCE R. HOUSTON
General Counsel

23 January 1962
(DATE)

FORM NO. 101 REPLACES FORM 10-101
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(47)

**MEMORANDUM REGARDING DISCREPANCIES BETWEEN
PEARSON ALLEGATIONS AND THE RECORD**

January 10, 1962

In The Washington Post of January 10, Pearson discussed Mr. McCone's relations with the Kaiser family and the award of the C-119 contract to Kaiser-Frazer. He quoted Representative O'Konski of Wisconsin as saying that Mr. McCone being "merely on leave of absence from his position as president of the Bechtel-McCone Corp. . . . becomes Under Secretary of the Air Force and arranges a nice fat gift for Kaiser" Representative O'Konski's statement was raised by Mr. McCone during hearings before the Preparedness Subcommittee No. 1 of the Senate Armed Services Committee, June 2, 1953, pages 33-34. Mr. McCone pointed out that he had written Mr. O'Konski to deny the statement, and Senator Symington had Mr. McCone's letter to Mr. O'Konski placed in the record of those hearings. The letter points out that the Bechtel-McCone Corp. was dissolved in 1945 and that Mr. Kaiser did not directly or indirectly possess any interest in Mr. McCone's companies or any business undertakings under Mr. McCone's direction. Conversely, Mr. McCone had never been in the employ of Mr. Kaiser or any corporation controlled by him. Pearson stated that Mr. McCone did not deny that the Bechtel family owned 4,200 shares of Kaiser-Frazer common stock. Mr. McCone's letter states "With regard to the Bechtel family's ownership of Kaiser stock, I have no knowledge whatsoever."

In connection with the C-119 contract award to Kaiser-Frazer, Pearson stated that Mr. McCone tried to explain this to Senator Bridges by saying that the Department of Defense wanted to develop secondary suppliers. "He had to admit under cross-examination, however, that Secretary of Defense Marshall had issued the directive on 'second suppliers' only after the Kaiser contract had been negotiated." Mr. McCone was questioned on this during the 1953 hearings (page 19), and the Chairman noted that Mr. McCone had first talked to Mr. Kaiser on December 5, the contract was awarded on December 15, Kaiser-Frazer submitted proposals on December 19, and the letter of intent was sent on December 29, but that the policy on second sources was issued on December 18. Mr. McCone replied, "Yes, I am familiar with that, but I also know that it was in drafting stages and we were all working over it for several weeks, and it was a known policy. Like so many things, true, they might be subject to change before actual issuance, but it had been a subject of common discussion among us, the Secretaries and Under Secretaries for some time; therefore we felt that we were conforming to the established policy as developed in conference, although I do know that the actual paper which I quoted here was not issued until December 18. Pearson also says that 'No facilities or cost studies had been made, and the Air Force had no idea what Kaiser was going to charge Uncle Sam for being bailed out at Willow Run. In the testimony before the Subcommittee (page 16) Mr. McCone stated

The thinking behind it was this: the experienced officers in the Air Materiel Command can, from the knowledge of the plants they have built and grown up with, they can very easily calculate what the production is going to be, and they know just about what the tooling costs will be. The officers--General Cook and his men--knew more about what the tooling and what the production at Willow Run would be than the Kaiser-Frazer Co. ever did because they were professionals in the business, and here was the contractor, who was an amateur. So they could reach a conclusion very easily, very easily, that this plant could be used properly for the manufacture of the plane, and they likewise knew that certain long lead time machine tools would have to be purchased or gotten into production; there was need for the plane, irrespective of where it was produced. That is what they wanted to get under way. That is why they issued that letter promptly. I think that there was only four or five million dollars that was authorized at that time for expenditure for these particular long lead time items. Getting that started then they could proceed in a more orderly fashion with other details of the negotiations. That to me seemed to be a proper procedure and one pursued in a great many other cases.

January 11, 1962

In his column of January 11, Pearson stated that "He [Mr. McCone] has had a continuing close financial connection with the Henry J. Kaiser interests to which, as Under Secretary for Air, he gave a very interesting quickie contract for making Flying Boxcars (C-119) in the record time of 10 days, at a price three times greater than that of Kaiser's competitor, Fairchild. and then quoted a statement made by Mr. McCone at the confirmation hearings before the Joint Atomic Energy Committee on July 3, 1958, that he had some business relationships with Kaiser inasmuch as a jointly owned company, 25 per cent owned by Hendy and 50 per cent owned by Kaiser Aluminum, had a long-range contract to transport Kaiser's bauxite from Jamaica to Baton Rouge. Pearson then quoted a statement made by Mr. McCone before the Senate Armed Services Subcommittee regarding the C-119 contract in which Mr. McCone stated he had no business relationship with Kaiser for years. The inference is that the statements were inconsistent. The latter statement was made in 1953 before the Preparedness Subcommittee No. 1 of the Senate Armed Services Committee and was accurate at that time. The former statement about the joint ownership of the shipping company was made in 1958 and was accurate at that time. In between, in about 1955, the Joshua Hendy Corp. had bid on a bauxite transportation contract for Kaiser Aluminum. When the contract was awarded to Joshua Hendy, in order to carry out its terms Joshua Hendy and Kaiser Aluminum jointly formed a shipping company.

Pearson then quoted portions of congressional hearings before the House Committee on the Merchant Marine and Fisheries, 23 through 26 September 1946, to support an allegation that McCone and Kaiser . . . parlayed an investment of \$100,000 into a profit of \$44,423,000. Mr. McCone testified during those hearings, and on pages 191-192 he testified that the California Shipbuilding Corp. raised a total of \$7,300,000 working capital, composed of \$600,000 of stock, \$2,700,000 in subordinated stockholders' loans, and \$4,000,000 of bank loans. The gross earnings over a five-year period after renegotiation and recapture were \$35,541,880.60, nonreimbursable costs incurred were \$4,167,906.48, and taxes paid or accrued were \$22,591,110.82, leaving a net after-taxes profit of \$8,782,863.50. These net profits were .089 of one per cent on the \$919,000,000 value of the 467 ships produced.

January 12, 1962

In his column of January 12, Pearson quoted further excerpts from the 1946 hearings to infer that Mr. McCone's interests made undue profits out of their wartime shipbuilding activities. The facts are as set forth above and all contracts and arrangements were in accord with normal Maritime Commission policy and practices.

January 17, 1962

On January 17, Pearson published allegations and statements inferring that the award of the contract to operate the nuclear powered Savannah went to a shipping company known as States Marine by influence somehow exerted by Mr. McCone, who, according to Pearson, was in partnership with States Marine. In the confirmation hearings before the Senate Armed Services Committee on 18 January 1962, Mr. McCone testified that he had no direct or indirect interest in States Marine although he had an interest in other ventures with the Mercer family who were some of the owners of States Marine and that some of his, Mr. McCone's, shipping interests had business arrangements with States Marine. He testified further that he knew nothing of the events leading up to the award of the Savannah contract, and it was awarded prior to Mr. McCone's membership in the Atomic Energy Commission. The contract was awarded by the Department of Commerce, and the only participation by the Atomic Energy Commission was at the staff level where the Atomic Energy Commission merely voiced a "no objection" to the award. Mr. McCone testified that he spoke to no one in the Government about the Savannah contract prior to the time it was awarded and knew nothing about it until after the award had taken place and, therefore, had nothing to do with the assignment to States Marine.

January 22, 1962

In his column of January 22, Pearson noted Mr. McCone's holdings in Standard Oil of California and Standard Oil of New Jersey and that his holdings

In Standard of California make him the second biggest stockholder in a company whose profits and future are materially influenced by Central Intelligence. In his testimony before the Senate Armed Services Committee on 16 January, Mr. McCone testified that the figure of \$1,000,000 as his holdings in Standard Oil of California was approximately correct, although a little low, but that he was far from being the second biggest stockholder in that company. He testified that he had no investment of any sort in Standard Oil of New Jersey. He also testified that he could not think of any manner in which his Standard of California holdings could influence him in connection with his duties as Director of Central Intelligence. Mr. McCone further testified that the position of the Director of Central Intelligence was not a policy-making position. Pearson's claim of CIA's role in Middle East affairs is based on a false assumption.

Pearson acted at the end of the column that States Marine got the prime atomic merchant ship Savannah contract when McCone was AEC Chairman. As noted above, the award was made to States Marine by the Department of Commerce before Mr. McCone was a member of the Atomic Energy Commission, as Pearson himself stated in his column of 17 January.